



MAINSTREET EQUITY CORP RELEASES FY 2017 RESULTS

Calgary – December 13, 2017 /CNW/ – Mainstreet Equity Corp. (“Mainstreet” or the “Corporation”), an add-value, mid-market consolidator of apartments in Western Canada, is announcing its operating and financial results for the year ended September 30, 2017.

Bob Dhillon, Founder and Chief Executive Officer of Mainstreet, says, “These results prove the resilience and effectiveness of our add-value business model. Over the past three years, we have held to our long-term strategy of growing our portfolio without increasing share capital, which has created real value for Mainstreet and its shareholders.”

Despite sustained economic volatility over the past three years, Mainstreet still managed to create substantial value for its shareholders and considerably grow its portfolio without causing dilution. The market value of our portfolio in 2017 increased to \$1.63 billion (this does not include 706 units acquired subsequent to year-end), an increase of 30% over 2014. Our net asset value (“NAV”) increased by 16% to \$797 million over the last 3 years. The total unit count year-to-date is 11,186 units, a 27% increase from 8,780 units at the end of fiscal year 2014. In addition, Mainstreet also expanded its portfolio to include Regina, Saskatchewan. We believe these achievements are a result of our long-term, value-add strategy that is fundamentally rooted in creating real value for shareholders, independent of volatile macroeconomic conditions.

HIGHLIGHTS FOR 2017:

GROWTH

Continued to demonstrate the effectiveness of our 100% organic growth model. During the year, Mainstreet acquired 601 units of residential apartments for \$65 million (\$109,000 per unit). Subsequent to the year-to-date, we acquired an additional 706 units in Alberta and Saskatchewan for \$78 million (\$109,900 per unit).

FINANCING

Our decision to refinance all pre-maturity mortgages for the fiscal year 2017 and 2018 at a cost of \$2.9 million payout penalty was in anticipation of rising interest rates. The average interest rate for the early refinancing was 2.47%. Should we have refinanced those mortgages on their maturity dates, the interest rate would have been approximately 33 basis points higher, resulting in additional interest expense of approximately \$973,500 per annum or \$9.7 million over 10 years.

NCIB

Repurchased and cancelled 53,569 shares under our normal course issuer bid (NCIB) at an average price of \$36.83 per common share, in order to take advantage of shares trading below their true NAV.

LIQUIDITY

Maintained our sizeable year-to-date estimated liquidity position of \$175 million, including a cash balance of \$25 million, to pursue further organic growth.

Vancouver/Lower Mainland remains robust (it comprises 26% of our portfolio) and continues to outperform the balance of Western Canada. Our vacancy rate in the region was 0.9% over 2017, down from 1.8% the year before; NOI grew 10% year-over-year. The fair market value increased by \$82 million, or 21%, over 2016 to \$176,000 per unit due to the booming estate market in Vancouver/Lower Mainland.

For more detailed analysis of Mainstreet operating results for Q4 2017, please refer to the sections titled “Funds from Operations” and “Rental Operations” in our MD&A.

RESULTS

In fiscal 2017, FFO per basic share increased 2% to \$2.88, compared with \$2.82 in 2016. FFO decreased 1% to \$25.9 million, compared with \$26.2 million in 2016.

Rental revenues in the fiscal year 2017 increased 4% to \$104.7 million, compared with \$100.3 million in 2016; this came alongside a 1% decrease in same-asset rental revenues to \$98.6 million, from \$99.3 million in 2016. NOI increased 1% to \$64.4 million, and decreased 3% to \$61.4 million on a same-asset basis. Operating margins both from continuing operations and on a same-asset basis were 62%, down 2% compared with 2016.

The 2017 vacancy rate on a same-asset basis dropped to 8.4%, compared with 8.7% in 2016. Overall vacancy increased to 10.5%, up from 8.9% in 2016, mainly due to the recent acquisitions of unstabilized assets.

Mainstreet raised \$127 million in funds through financing activities in fiscal year 2017. The Corporation refinanced \$60 million pre-maturity loans at an average interest rate of 5.19%, for \$122 million, into new 10-year, CMHC-insured mortgages at an average interest rate of 2.43%, resulting in approximately \$1.6 million in annualized interest savings, or \$16 million over 10 years. It also financed 12 clear title assets for \$65 million 10-year, CMHC-insured mortgages at an average interest rate of 2.55%.

CHALLENGES

Economic uncertainty remains our biggest challenge in the Alberta and Saskatchewan markets. Oil and gas producers have begun to gradually increase their capital spending plans, with oil now trading above US\$50. Even so, oil markets remain below the levels needed to spur major new developments.

A combination of macroeconomic conditions and new acquisitions is creating vacancies, which is in turn causing higher operating costs. These costs include higher expenses for HR, marketing, advertising and maintenance. Because Mainstreet adds value by renovating its suites every time a tenant moves out, maintenance costs tend to rise alongside higher churn rates. Our overall vacancy rate in 2017 remained above average at 10.5%. However, management believes this is a finite trend as we continue to undergo the stabilization process through ongoing renovations. As of the year-end date, 1,175 units, or 11% of the portfolio, remained in the stabilization, reposition and construction process.

We have also seen increased operating costs due to higher property taxes, as well as the introduction of a carbon tax in Alberta, which targets property owners. Heating costs have risen due to marginally higher natural gas prices.

Negative economic forces over the past two years have likewise caused significant short positions in respect of Mainstreet’s stock. As of November 15, 2017, the short position in respect of Mainstreet totalled 558,215 common shares. However, that short position is smaller than the previous quarter ended June 30, 2017, when it totalled 711,600 common shares. Management believes these short positions are partly responsible for MEQ shares trading below NAV.

OUTLOOK

Economic activity remains well below pre-recession levels in the Prairie Provinces, but the region is still expected to lead economic growth in Canada as commodity prices rise, according to the Conference Board of Canada. The CBOC estimates Alberta’s GDP growth will reach 6.7%, in 2017, the highest in recent memory. In 2018, it projects Alberta to grow 2.1%, while Saskatchewan is expected to grow 1.6%.

Several indicators suggest the outlook for the resource sector is improving. Oil prices in November were trading around the highest levels in years. Utilization rates of drilling rigs in Canada averaged 30% – the highest in 10 quarters, according to data from the Canadian Association of Drilling Contractors. Meanwhile, Nebraska approved the Keystone XL pipeline in November.

Even in a recession, year-to-year in-migration over the last three years has been positive. Total in-migration into Alberta was 105,322 in the three years ended Q2 2017, while Saskatchewan increased by 28,146 over the same period (Statistics Canada). In addition, we believe the federal government's strategy to boost immigration numbers into Canada will have a broadly positive effect on migration levels in Western provinces.

As in-migration levels stabilize, we believe the current oversupply in the rental market will continue to be gradually absorbed. This current oversupply is largely the result of a rapid build out of investor-owned condominiums during times of high economic growth, many of which were later converted into rental units that spilled over into the broader rental market. We are already seeing some encouraging signs of absorption: according to the CMHC, Calgary's vacancy rate in the primary rental market declined to 6.3% in October 2017, down from 7.0% a year earlier. This was the first decline in Calgary apartment vacancy rates in three years.

Stable in-migration comes alongside encouraging employment numbers in the Prairie Provinces. Alberta added 16,000 jobs in October 2017 compared to a year earlier, while Saskatchewan was flat over the same period.

Economic volatility has in turn created opportunities to accelerate acquisitions. While we remain conservative in our approach, management expects to continue accelerating our strategy of acquiring value-added assets on an opportunistic basis through 2018.

With the Bank of Canada set to raise interest rates in 2018 and 2019, we plan to continue refinancing our existing mortgages and clear-title assets into long-term, CMHC-insured debts at record-low levels. This frees up funds for future growth while also mitigating risks against further interest rate hikes.

Lastly, renters tend to favour mid-market prices during times of economic uncertainty as they defer major investments like new homes. With its price-point average rental rate between \$900 and \$1,000, we believe Mainstreet is perfectly positioned to capture that mid-market demand. Tighter loan requirements introduced by the Office of the Superintendent of Financial Institutions are expected to make it more difficult for first-time homebuyers to secure financing. The Bank of Canada estimates the new rules could disqualify as much as 10% of new buyers every year, according to its Financial System Review.

RUNWAY ON EXISTING PORTFOLIO

- 1) Closing the NOI gap: Over fiscal year 2017, 11% of the Mainstreet portfolio was going through stabilization process, which contributed to higher vacancy rates. This inherent challenge in our business model is further increased by recent acquisitions, which causes higher rates of unstabilized properties that affect our NOI and FFO. However, we expect to close this gap over time after stabilization.
- 2) Pursuing our organic growth model: Using our strong potential liquidity position of approximately \$175 million, Mainstreet's business strategy will allow us to continue to boost NOI and FFO while avoiding equity dilution.
- 3) Buying back shares at discount: We believe MEQ shares continue to trade well below their NAV. We will therefore continue to buy back our own shares on an opportunistic basis under our normal course issuer bid.

Forward-Looking Information

Certain statements contained herein constitute "forward-looking statements" as such term is used in applicable Canadian securities laws. These statements relate to analysis and other information based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. In particular, statements concerning estimates related to future acquisitions, dispositions and capital expenditures, increase or reduction of vacancy rates, increase or decrease of rental rates and rental revenue, future income and profitability, timing of refinancing of debt and completion, timing and costs of renovations, increased or decreased funds from operations and cash flow, the Corporation's liquidity and financial

capacity, improved rental conditions, future environmental impact the Corporation's goals and the steps it will take to achieve them the Corporation's anticipated funding sources to meet various operating and capital obligations and other factors and events described in this document should be viewed as forward-looking statements to the extent that they involve estimates thereof. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions of future events or performance (often, but not always, using such words or phrases as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and should be viewed as forward-looking statements.

Such forward-looking statements are not guarantees of future events or performance and by their nature involve known and unknown risks, uncertainties and other factors, including those risks described in this Annual Information Form under the heading "Risk Factors", that may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such risks and other factors include, among others, costs and timing of the development of existing properties, availability of capital to fund stabilization programs, other issues associated with the real estate industry including availability but without limitation of labour and costs of renovations, fluctuations in vacancy rates, unoccupied units during renovations, rent control, fluctuations in utility and energy costs, credit risks of tenants, fluctuations in interest rates and availability of capital, and other such business risks as discussed herein. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include, among others, the rental environment compared to several years ago, relatively stable interest costs, access to equity and debt capital markets to fund (at acceptable costs) and the availability of purchase opportunities for growth in Canada. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, other factors may cause actions, events or results to be different than anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could vary or differ materially from those anticipated in such forward-looking statements. Accordingly, readers should not place undue reliance on forward-looking statements contained herein.

Forward-looking statements are based on Management's beliefs, estimates and opinions on the date the statements are made, and the Corporation undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions should change except as required by applicable securities laws or as otherwise described therein.

Certain information set out herein may be considered as "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding the Corporation's reasonable expectations as to the anticipated results of its proposed business activities for the periods indicated. Readers are cautioned that the financial outlook may not be appropriate for other purposes.

SOURCE Mainstreet Equity Corporation

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